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Home Builders

MRV Eng. e Part. S.A.

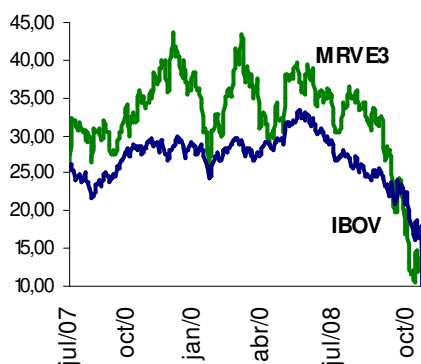
Ticker: MRVE3
Price: R\$9,02

Recommendation: BUY
Price Target: R\$ 16,93

TXG.GV

29/10/2008

Earnings / Share



Source: Bloomberg

	Mar.	Jun.	Sept.	Dec.	Year	P/E Ratio
2006A	R\$ 0,03	R\$ 0,01	R\$ 0,08	R\$ 0,09	R\$ 0,20	-
2007A	R\$ 0,04	R\$ 0,15	R\$ (0,14)	R\$ 0,33	R\$ 0,37	101,4x
2008E	R\$ 0,38	R\$ 0,49	R\$ 0,21	R\$ 0,26	R\$ 1,34	6,8x
2009E	R\$ 0,54	R\$ 0,70	R\$ 0,30	R\$ 0,37	R\$ 1,91	8,9x

Highlights

- **Valuation:** We are initiating coverage on MRV (MRVE3) with a **BUY** recommendation and a price target for YE09 of R\$16,93. We achieved this target with a DCF valuation using conservative premises, and our sensitivity analysis proved that even in the worst case scenario the company delivers a strong upside. MRV is trading at 11,3x P/E and 11,2x EV/EBITDA while the industry is trading at 7,9x and 6,8x, respectively. MRV is appraised at higher multiples given its stronger than average growth prospect. MRV is trading at 0,1x PEG while the industry is trading at 0,3x.
- **Industry Overview:** Brazil's Home Builders industry faced an extraordinary growth during the last two years. We foresee tougher, yet strong years to come. Brazil has got an 8 million units home deficit, of which 13% is attended by the main low income Brazilian home builders, which gives MRV room to grow even in the middle of the crisis. We replicated Mexico's model to Brazil's macroeconomic conditions in order to see MRV's potential growth and obtained a solid YoY 14% growth after 2010.
- **Company:** MRV's business is based on a standardized construction model which gives the company high margins and a construction cycle twice as fast as the industry average. Being not only a homebuilder, but also incorporator and sales office MRV is able to gain knowledge on its clients' preferences and lower its costs. Also, the company's exposure to the low income segment gives it a privileged position in the industry with lots of growth potential. Besides that, MRV is the most geographically diversified player, operating in 63 cities across the country.
- **Investment Risks:** Being highly dependent on credit, MRV could face problems in a scenario of credit scarcity during the financial crisis. MRV's client base is highly exposed to the risk of rising interest rates which would increase considerably the installments. Cyrela and Gafisa entering the low income market threatens MRV's market share and margin. A deceleration in the labor market reduces the availability of credit from FGTS, decreasing the possibilities of financing.

Market Profile

52W Price Range	45,48 - 9,02
Market Cap (R\$ mn)	1.226,6
Shares Out. (mn)	136
Avg. Daily Vol. (mn)	7,4
Beta	0,96
Div. Yield	3,7%
Land Bank PSV	7.500,0
08e P/E	6,8x

Source: Group's Estimates

Important disclosures appear at the back of this report

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Investment Summary

Highlights	2009e
Net Sales	2.139
COGS	(1.305)
Gross Profit	833
SG&A	(463)
EBIT	370
Other Rev / (exp)	32
Profit before taxes	402
EBITDA	374
% EBITDA Mg	17%

Executive Summary

We are initiating coverage of MRV, one of the biggest enterprises in the homebuilders sector in Brazil, focused on low income, with a recommendation of **BUY** at a target price for 2009 of R\$16,93, which represents an upside of 88% over today's price of R\$9,02. The growth of MRV has exceeded market's expectations in the last years and we believe their performance will be positive for the next year, creating a profit before taxes CAGR of 15% 2008-2015. We believe that the sector has a strong potential for growth in the coming years, since there exists a deficit of homes of approximately 1mn units for Social Economical Level (SEL) C, which will further the growth in the company's demand. Despite the international financial crisis, which has been diminishing the liquidity of the market and the offer of disposable credit, we believe that the segment served by MRV will have a guaranteed credit flow from the "Sistema Financeiro de Habitação" (SFH). Furthermore, the company has a solid balance sheet and one of the biggest margins in the sector, which contributes to their stability, even in a period of crisis. We consider the growth of big competitors like Gafisa and Cyrela in the low income sector a threat to the future of MRV, with a possible decrease in their profit margins and market share. Nevertheless we believe MRV's experience in the low income segment and shorter construction cycle give the company an advantage over its peers.

Macroeconomic Premises

The foundations of the Brazilian economy have become increasingly unstable with the aggravation of the global financial crisis. The decrease in exports, the drying up of the capital markets and the shrinking of direct foreign investment decreased the offer of resources by more than US\$80 bi. The exposure of Brazilian companies to foreign currency and the recent losses incurred by businesses with solid balance sheets have made the offers of credit lines from Brazilian banks scarce and expensive.

The home builders sector suffers particularly under these conditions because it depends strongly on the financial institutions to finance their working capital. Despite the fact that the government announced an availability of special credit lines to finance the activities of this sector, the measures that are being taken will need time to prove its effectiveness. On the other hand, there is a tendency to a weakening demand because of 1) decrease of financing 2) a drop in the stability of the labor market and 3) a shrinking in real terms of the salaries of workers caused by the increase of inflation.

Home builders focused on the low income segment are in a more favorable position as regards the concession of real estate financing, since the loans are guaranteed by the SFH. The Home Financing System demands that all Banks that are part of the Sistema Brasileiro de Poupança e Empréstimo – SBPE – reserve 65% of all deposits to mortgages. This funding is, thus, guaranteed to be directed to real estate financing. We believe that a greater aversion to risk based on the instability caused by the financial crisis will increase the percentage of savings deposits (poupança), thus guaranteeing an increase in the supply of resources. The other fund for resources in the SFH system is the "Fundo de Garantia por Tempo de Serviço" (FGTS). 8% of workers salaries are deposited to the FGTS. This fund finances 100% of the real estate in 20 years, at a fixed tariff of TR + 6%. The resources of the fund today surpass the demand for financing; therefore we estimate they will be sufficient for short term financing. In the long term we see as a potential risk to FGTS's funding the slowdown in the labor market, which would decrease the inflows and increase the fund's outflows, as the unemployment rate augments.

Macro Indicators						
	2008E	2009E	2010E	2011E	2012E	2013E
Selic	14,25%	13,50%	12,00%	11,00%	10,00%	9,75%
TR	1,35%	1,28%	1,14%	1,05%	0,95%	0,93%
PIB	5,23%	3,10%	4,00%	4,20%	4,30%	4,40%
IGP-M	10,65%	5,50%	4,50%	4,50%	4,50%	4,50%
INCC	16,80%	5,26%	3,18%	3,81%	5,25%	5,00%

Source: BCB, Group's Estimates

The rise of the INCC has little impact on the margins of the sector. That is because all accounts receivable as well as all expenses of the company during construction are readjusted by this index. This way, the increase in costs is offset by the increase in receivables. In the case of financing by "crédito associativo", the

installments are not adjusted by INCC, which hurts the companies that use this line of credit at a time of high inflation. In a scenario of rising inflation, there is also the risk of insolvency and breach of contracts.

The growth of the real estate sector is highly associated with the growth of the country's GDP. A scenario of rising GDP would benefit the sector. GDP's growth for 2009 is expected to grow at a lower pace, thus diminishing the demand for new homes, as labor market weakens and wages fall.

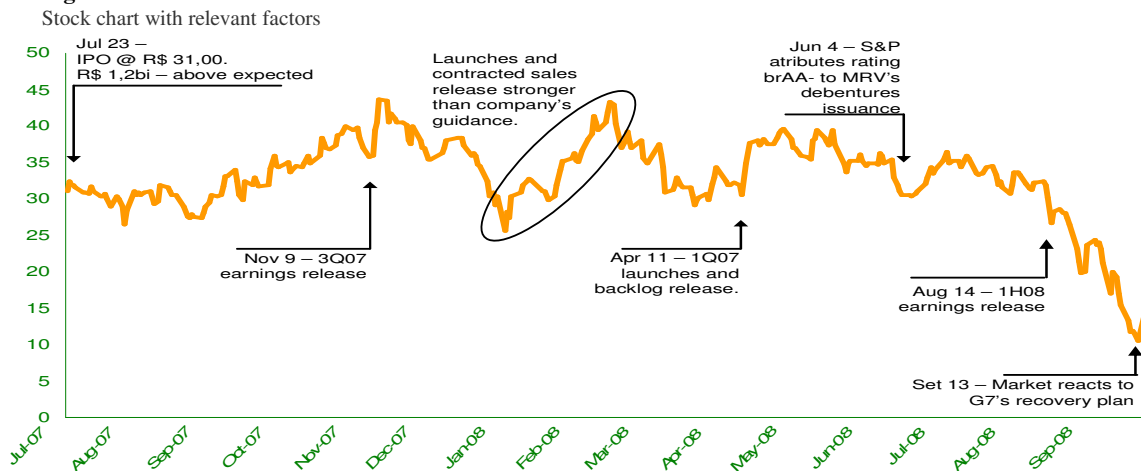
Financing:

There are three models of financing by the SFH. 1) the "Crédito Associativo" model, guided by CEF, is the most advantageous for the company. In spite of the fact that their installments are not adjusted by INCC, the company has incoming cash flow while the construction is being completed. Thus the acknowledgement of revenues follows the cash flow closely. Approximately 40% of MRV's financing is done according to this model. 2) Direct financing is done by MRV itself, by which the client makes a down payment and the rest is paid in installments. The average time limit for these contracts is 60 months. During this period the interest rate may vary between 1,2% and 2,0% per month. Up to the completion of the home, the adjustment is made by the INCC, and after that by the IGP-M, with the addition of a 12% interest rate per year. 3) By means of bank financing the client is granted up to 80% of the value of the real estate. MRV receives the amount by the PoC (percentage of completion) system.

Premises for the Company:

To evaluate the future cash flows of the companies we use the PSV growth as driver. The boom the industry enjoyed in 2007 and 2008 and the change of scenario caused by the going public of several companies makes the analysis of historical facts unreal. This is why we opted for the use of historical facts of another country for application to macroeconomic variables on the company. We chose Mexico as a parameter of comparison because 1) it is a market that experienced a real estate boom similar to the Brazilian one, whose growth decreased rapidly after the crisis the country went through in 1995, 2) Mexico's macroeconomic variables are similar to Brazil's in terms of inflation rates and GPD growth and 3) we believe that the Mexican business model and mortgage financing is close to the reality we are projecting for the Brazilian market. The Mexican real estate market has started to expand its real estate investments in the peripheral areas of the city, creating a complete infra-structure for these areas, at lower cost. It is already possible to perceive this tendency in Brazil by looking at the business model of the Bairro Novo Project – an association of Gafisa and Odebrecht. We believe that this tendency will be followed by the other players in the market and by MRV in turn.

Figure 1: Annotated Stock Chart



Source: Company, Bloomberg

Valuation & Recommendation

We choose to use the DCF model to estimate our price target because we believe it to be the only method that fully captures the dynamics of the business and considers all the variables that are important to the model. We reached a fair price of R\$16,93 to MRV's stock at YE09, yielding an upside of 88% relative to current price of R\$9,02 with a **BUY** recommendation.

For estimating MRV's future cash flows, we used as main driver the company's PSV. For 2008 we estimate the company to reach its minimum guidance value of R\$2,5bi. For the next years' estimated growth we used Mexico as benchmark. Analyzing the growth of the industry in Mexico after the 1995 crisis, we noted that the Home Builders sector decreased growth strongly, even showing negative growth in some years. In that country, the average growth for the sector during those years was 10%. To be conservative, we opted to add a risk Premium of 10% to this growth, in view of the fact that the crisis directly affected one of the main drivers of the industry: credit. Therefore we estimate for 2009 the same PSV as for 2008. For the next years, we estimate a growth of 14% per year, by means of the correlation of the GDP and the Mexican sector growth after the crisis, adapting the variables to the Brazilian market.

One of the key variables for the homebuilders industry is working capital management. We forecasted the working capital accounts based on receivables, payables and inventories days. For the first two years we estimated the financial cycle days to be the same as of 2008 because we assumed the company's policy won't change in the short term. For the next years, we forecasted a slight decrease in these days in face of the industry's economic slowdown. Since working capital policy is not easily modified we estimate that the impact of this slowdown will only affect this account in the long term.

To discount our future cash flows we decided to use a moving WACC in our model since the company's capital structure varies during the period of 2008-2015. For the first two years (2009-2010) of our projection, we estimate a Debt/Equity ratio of 21% and 43%. These values consider the estimated issuance of R\$500 mn worth in debentures, divided into R\$100mn in 2009 and R\$400mn in 2010. We estimate that it won't be necessary for the company to issue the rest of the debenture worth R\$500mn, since the company has got enough cash to finance its operations and the cost of debt would be too high in the current scenario. The WACC used in the model can be found on figure 4.

We used as fixed rates for our model the risk free rate of 3,69% which equals the current US-Treasury 10 years. For estimating beta, we used the industry's unleveraged beta of 0,84 and releveraged it to MRV's capital structure year over year. We used a market risk premium of 5,10% which equals the average return of a fully diversified portfolio in dollars minus the return of a portfolio of risk-free bonds. For Brazil's country risk we used an average of 75% of the country's average risk for the last 12 months and 25% of the 5 years CDS spot curve, totaling 3,39%. We added the inflation differential of Brazil's IPCA and CPI to the model. For conservativeness sake we added three extra risks due the current macroeconomic conditions, the company's excessive growth during the last year and the entrance of two large players in the low income segment, namely Gafisa and Cyrela. We added 0,5% for each variable: financial risk, execution risk and competitiveness risk. The cost of debt was calculated by the cost of the issued debenture, varying accordingly to Selic. To obtain the perpetuity value, we included a perpetuity growth of 4%, according to Brazil's expected GDP.

Based on this analysis we reached a fair value for the company's market cap of R\$2,3bi. Compared to current market cap of R\$1,2bi we conclude that there is large space for an upside opportunity.

Valuation Through Multiples			
	EV/EBITDA	P/E	PEG
MRV	11,2x	11,3x	0,1x
Brazilian Peers	6,8x	7,9x	0,3x
Mexican Peers	7,2x	5,3x	0,3x
Implicit Price based on BZ	21,13	15,14	18,90
Implicit Price based on MX	22,26	10,20	18,56
Avg Implicit Price	17,70		

To support our DCF valuation, we analyzed the company by its multiples, to see that it is actually selling at higher multiples than industry's average. The company's stock is being traded at 11,3x its earnings, while the industry's measured average is 7,9x. By the same token, the EV/EBITDA of the company is 11,2x, compared to an average of 6,8x in the industry. Compared to the average of similar companies in Mexico, the Brazilian

market is trading at high multiples. We believe this difference is due to the fact that the Mexican market is more mature than the Brazilian, and investors are pricing future growth in the Brazilian industry. This can be proven by comparing both countries' PEG multiple, which are trading at the same level. The average implicit price, using both Brazilian and Mexican multiples, for MRV is estimated at R\$17,70, yielding an upside of 96,21% over current price.

We used this analysis in order to cross-check our target price obtained with the DCF Valuation. The small difference of only 5% between our DCF-based target price of R\$16,92 and our multiples-based target price of R\$17,70 shows the convergence between the models and reinforces the accuracy of our target price.

Using the NAV method we see that MRV's Market Value is lower than its NAV. Therefore at current price the company's net assets value discounted by intangible assets (R\$1,6bi) is more valuable than its market value (R\$1,2bi). The NAV value per share of R\$11,42 is the liquidity price of the company's assets and works as a floor price for its share, 27% above current price.

Sensitivity Analysis

Due to current instable market conditions and MRV's lack of historical data, we analyzed our target-price sensitivity to changes in key premises assumed in the model. We tested our model for both bull and bear markets and reiterate our **BUY** recommendation even in the worst case scenario.

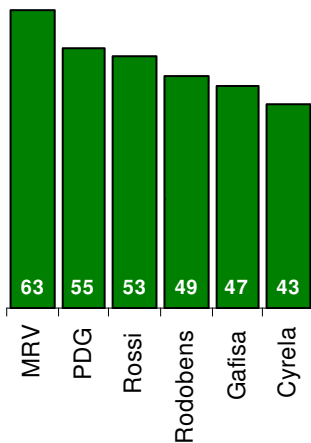
The perpetuity value in the standard DCF model accounted for 76% of the firm value. In order to weaken the dependence of the firm's value on the perpetuity value and growth, we adjusted this value for the average of the last two cash-flows. With that measure we reduced the perpetuity value's percentage to 67% of the firm value, generating a target price of R\$12,50, with a 38,7% upside.

Since there is a lot of uncertainty regarding the macroeconomic condition during the next two years, we stressed the company's PSV growth in 2009 and 2010. Even in the worst case scenario the company's stock would still be expected to present an upside of 60%. By stressing our model's WACC Risk premium and long term growth rate, we would still be facing an upside of 54% YE09 in the worst case scenario.

		2009-2010 Growth				
		-6,0%	4,0%	14,0%	24,0%	34,0%
2008-2009 Growth	-20%	14,39	15,38	15,77	16,19	16,60
	-10%	15,45	15,91	16,35	16,82	17,28
	0%	15,93	16,44	16,92	17,45	17,96
	10%	16,41	16,97	17,50	18,08	18,63
	20%	16,88	17,49	18,08	18,70	19,31

		Extra risks to WACC				
		0,5%	1,0%	1,5%	2,0%	2,5%
Perpetuity Growth	2%	16,30	15,71	15,06	14,46	13,89
	3%	17,42	16,64	15,92	15,24	14,61
	4%	18,64	17,75	16,92	16,16	15,46
	5%	20,12	19,08	18,13	17,26	16,45
	6%	21,95	20,72	19,60	18,58	17,64

Landbank's diversification (number of cities)



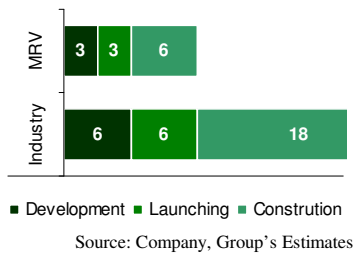
All in all, we consider MRV's stocks a profitable investment given its high upside potential even in the worst case scenario. We have used highly conservative premises in our DCF model and have appraised both macroeconomic and company relative risks to our model. Using both multiples, NAV and standard DCF models we conclude that MRV's current price is far below its fair value.

Business Description:

MRV's business consists mainly of the incorporation and construction of lower income housing units standardized in three different products (Park, Spazio and Village), aimed exclusively at the lower income population. Active in this sector for over 28 years, the company is present in a wide area of the country, working in 13 states, besides the Federal District in a total of 63 cities. As a rule, the population of these cities varies between 100 and 500 thousand inhabitants.

The construction method adopted by MRV is geared to a uniform building standard, capable of being replicated on an industrial scale in different locations, providing a high degree of specialization, greater clout in negotiating with suppliers and lower production costs, which in turn lead to profits of scale for the operation.

Construction Cycle

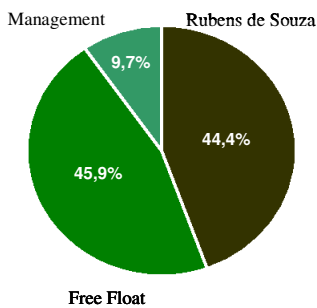


Besides, MRV relies on projects that use modular construction, i.e., based on structures that can be applied to different undertakings. This construction model propitiates commercial agility, since it facilitates the implementation of standard projects for different regions, thus creating greater flexibility of the company.

The company's business model is fully integrated, encompassing the areas of land prospection, building and selling the units, which means a bigger profitability and leads to a profound knowledge of customer preferences, resulting in greater expertise. The company's cycle of construction is much faster than the traditional one, creating a low financial cycle which allows the company to be more efficient with cash management, since revenues are available more quickly for the construction expenses.

The shares structure of the company is divides as follows: Rubens Menin Teixeira de Souza is the major shareholder, owning 44.4% of the company's stock; free float accounts for 45.9% and 9.7% belong to executives. The group believes that the fact that over 44% of the shares are in the hands of a single shareholder strengthens the idea that it is the case of long term investment.

Shareholder's Structure



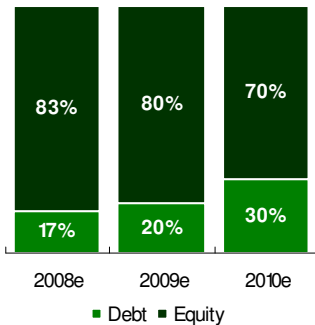
One of the highest margins in the industry:

Despite their work being aimed at the lower income segment of the population, MRV manages to achieve high profit margins – about 40% of gross income. This is made possible by the competitive advantages of the company, as shown above. We believe that MRV will be able to maintain these margins in the future, since the company is expanding in regions that have a high growth potential.

MRV-Log: a new business

In May 2008, the company announced the creation of MRV Log. This part of the company will be focused in developing warehousing, distribution centers, industrial condominiums, hubs and logistics parks. MRV will transfer to the logistics segment its expertise and know-how on identifying and buying land units. The company will benefit from its bargaining power towards suppliers to diminish construction costs. MRV Log will be in charge of managing the operations, while construction will be outsourced. Already approved projects will be financed by the company's own funds, while future ones will be financed through issuance of new debt. We are not incorporating any value in our model coming from this start-up. Any positive cash flows would represent an upside to our target price

Capital Structure



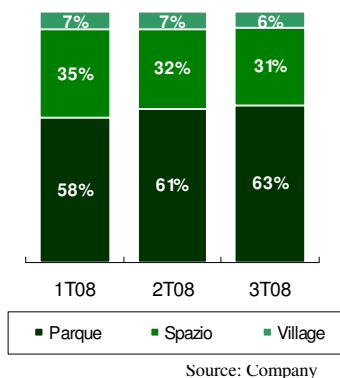
Other Headings Relevant to Company

The target-customers for MRV are persons with average income, varying between 4 and 10 minimum wages, which represents 24% of the population. 80% of their clients are acquiring their first home. The price of the houses built by the company varies between R\$41.600 and R\$220.000, and their actual size is between 40m² and 120m². The revenues of the company originate mainly from the interior of the state of São Paulo. Of the total, 65% come from São Paulo, 90% of this amount coming from the interior of the State.

Debentures: solid capital structure

Recently the company issued R\$300 million debentures of brAA- rating from the available R\$1.3 b. We believe that MRV will issue R\$500 million more in 2009, and another R\$500 million in 2010. Compared to others in the sector, the capital structure of MRV is extremely conservative, giving the company greater security and smaller perception of risk to investors. Even after the issuing of the debentures, the debt/equity relationship is estimated to be 40% for 2010. This relationship is still on the conservative side, which gives the company the ability to assume new debt that can be used to expand operations.

Company's Land Bank



Land bank: well diversified and lasting

The land bank inventory consists of 104k units, which are situated in strategic areas where a strong concentration of demand is present. MRV's total land bank is at R\$9.5b, in line with the company's guidance. MRV's strategy is to maintain its current land bank, since the company sees no increase in land prices in the near future. We estimate that the company will maintain its land bank at that level. The land bank is formed by way of cash purchases (80%) and swap (20%). Most of the company's land bank (68% and counting) is composed of units with a PSV of R\$80.000 – R\$100.000. We estimate that this number will increase, in accordance with the company's strategy. The current duration of the land bank is 3.5 years. According to information supplied by the company, the duration tends to decrease to 2.5 years. We estimate that this will be the case by 2013.

SWOT ANALYSIS

Strengths

- Valuable Brand, worth R\$ 25.800.000;
- Biggest brazilian home builder in the low income segment;
- Large experience in this sector, with over 28 years of experience
- Geographic diversification - 12 brazilian states and 63 cities;
- Low debt ratio and strong liquidity position

Weaknesses

- Real Estate industry is highly competitive, cyclical and fragmented;
- Customers are highly dependent on credit assessibility
- Customers are very sensitive to a rise on interest rates
- Large number of constructions at the same time makes it hard to manage them

Opportunities

- Income increase in social economical levels C and D;
- Homebuilding credit expansion in volume and deadline;
- Expectation of lower interest rate in the long term;
- Possibility to restructure the capital structure (issue debentures in order to lower WACC);
- Increasing use of Crédito Associativo and government's subsidies;

Threats

- Entrance of large players such as Gafisa and Cyrella in the low income segment;
- Rise in inflation augmenting the company's cost structure and monthly installments;
- Deceleration of economic growth and demand
- Aggravation of credit crisis, diminishing credit availability

	Avg Price per Unit	Avg Price per m2
MRV	105.000	1.733
Tenda	76.000	1.584
Rodobens	95.000	1.803
PDG Goldfarb	107.000	2.100
Rossi	85.000	1.693
Corp. GEO	50.598	858
Homex	27.684	659
URBI	59.059	1.001

Industry Overview and Competitive Positioning

Market Cap in R\$ mn	
Cyrela	2.758
Gafisa	1.567
PDG Realty	1.416
MRV	1.227
Brascan	774
JHSF	618
Rossi	594
Tecnisa	400
Even	395
Rodobens	328
EZ Tec	271
C. Corrêa	219
CR2	196
Klabin Segall	178
Trisul	178
Agra	161
Inpar	109
Abyara	87

Until recently, the credit expansion and macroeconomic stability enjoyed in the country made it possible for the real estate sector to grow strongly and consistently. The existing conditions of liquidity and access to credit were extremely favorable until then, expanding the market for the lower income classes and so increasing the possibility of growth in the sector, notably for MRV. The main growth drivers in the construction business are 1) credit availability, 2) long term payment dates, 3) interest rates.

The increase in the average income of the population acts as a catalyst for MRV's sales. There exists a deficit of homes of about 8 million units, which shows that the demand for housing is much greater than the supply, making the real estate sector for the lower income population quite attractive. Today, only 14% of this deficit covers the market potential of the homebuilders listed on the stock Exchange, as the existing financing models do not reach the rest of the population. Based on the Mexican model, we expect that the homebuilders will be able to cover a larger part of this deficit by undertaking projects that are less expensive and providing easier financing conditions to clients. The Mexican sector finances units with prices as low as R\$27.684, which is currently unattended by the Brazilian industry. As the Brazilian industry develops, we estimate an impressive increase in demand for low price units, which would trigger MRV's growth.

Another factor of influence on the growth of the sector is the age pyramid of the country. In the past ten years, the Brazilian population grew by approximately 36%. The increase of the population and its natural aging process, plus the decrease in the number of residents per housing units, are the fundamentals that support the high potential of demand for residential real estate in Brazil.

In view of the great attractiveness shown by the low-income housing market, it is possible to verify the big players' interest in this part of the industry. As an example, we cite the fact that big enterprises like Gafisa and Cyrela have penetrated this segment, thus creating a strong threat to companies like MRV. These companies are launching specific brands aimed at the lower income target customers, such as Living in the case of Cyrela and Fit in the case of Gafisa, who recently incorporated Tenda, another company exclusively aimed at the lower income segment.

Tenda is a company with the largest exposure to the lower income customer, having all their units priced under R\$120.000, their average price being R\$76.000 per unit. MRV are their nearest competitor, with an average price of R\$105.000 per unit and 69% of their units priced under R\$120.000. MRV's main competitors are Rodobens, PDG and Tenda. They act exclusively in the lower middle class segment, the same as MRV.

Consolidation tendency in the industry:

In the past two years, a large number of IPOs of construction businesses has been observed. This was mainly due to the real estate boom during this period, resulting in a total of 20 publicly traded companies. Based on a comparison with the Mexican HB sector, we believe there will be a consolidation tendency, leaving 5 or 6 large companies in business. In this scenario, we believe that MRV is best equipped to act as consolidator instead of being a target, because of their ability to provide cash, their strong balance sheet and large market cap. Currently, MRV is the fourth largest player in terms of market cap and there is a clear gap between the top 4th and the others, which gives a good measure of who could be acting as buyer for the next years.

Financial Analysis

Earnings

In MRV's 3Q08 earnings release, the company announced a growth of 166% in contracted sales for the year's first 9 months, related to the first 9M07, achieving R\$1,2bi (66% of the year's guidance). We strongly believe that the company will deliver its guidance of R\$1,8bi. It was surprising, however, the fact that the company presented a downturn in its contracted sales growth tendency. Normally, both the third and fourth quarters are the ones with strongest figures. We analyze this as a reflection of the world's financial crisis and therefore use highly conservative figures in our projections.

EBITDA of R\$ 206mn in 2008 is in line with the company's performance, among the highest in the industry, yielding a robust 16,54% margin with a CAGR 2008-2015 of 30%. The result is supported by the company's ability to maintain SG&A expenses under control. Net Income grows at a 37% CAGR 2008-2015, with EPS growing from R\$0,31 to R\$4,02.

Margins

Despite the fact that MRV works with lower income clients, the company has been able to deliver a strong gross margin, one of the highest in the sector. However, we estimate that the company won't be able to deliver its gross margin guidance of 40%-44%. We estimate that in 2008 the company will perform a margin of 38%. We arrived at this value considering that 40% of the company's revenue is not adjusted by INCC since they are arising from CEF. For the next years we see a margin gain remaining constant for the next years at 39%.

Compared to its peers, MRV delivers a low ratio of SG&A expenses as a percentage of contracted sales (7,6% Adjusted G&A and 4,3% selling expenses). MRV's integrated sales model and efficient management team guarantees the company the lowest SG&A margin in the sector. We estimate this percentage of 6% of contracted sales to remain constant for the valuation period, in line with management estimates.

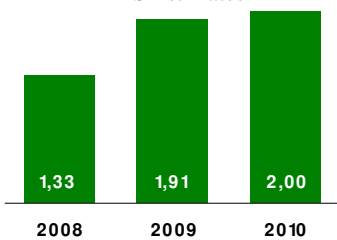
Cash Flow

Calculating the cash flow for real estate companies requires special attention, since there is a big gap between the financial reports and the actual cash flow. This is due to the fact that the construction period takes about 18 months to be finished and the accountability of revenues, costs and expenses occur accordingly to the project's progress (PoC), while the cash inflows happen by the time that sales are contracted.

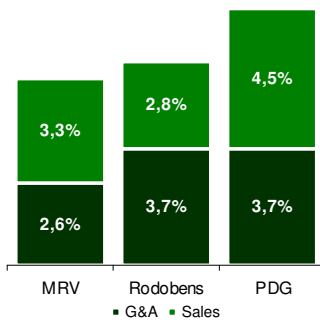
MRV's launches have grown at an impressive rate of 641% between 2006-2008, which resulted in needs for working capital to finance clients and land bank acquisition. In the 1H08 the company showed a negative cash flow of over R\$ 450 mm, of which more than R\$ 330 were used to increase inventories.

In a scenario where the company faces high need for working capital and uses almost all of its exceeding cash, MRV had to turn to debentures issuance in order to close this gap. As there are no estimates for growth being as sharpened as it was in the past years, we expect MRV to reduce their cash exposure as they commercialize the units launched but not yet sold. Another fact that contributes to a greater balance of cash flow is the estimated shortage in inventory conversion period, through the reduction of the land bank

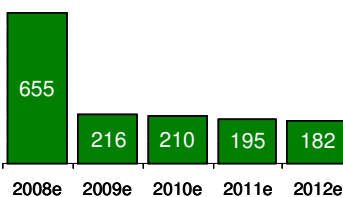
EPS Estimates



% to Contracted Sales



MRV's Working Capital Need



duration from 3,5 to 2,5 times the PSV. We estimate a gradual decrease in the need for working capital, derived from growth stability and a better financial cycle.

Balance Sheet & Financing

MRV's capital structure appears to be extremely conservative, with a debt/equity ratio next to zero until 2007. This is what has granted the company a brAA- rating from S&P for the issuance of R\$ 1,3bi with a deadline of 5 years. In 2008, the company issued R\$ 300 mm at CDI + 1,5% and we expect that they will issue only R\$ 500 more during 2009-2010, since credit will become more expensive. As a comparison, the debentures' yield of Urbi Desarrollos Urbanos and Geo Corporación (Mexican benchmarks), grew 57% and 50% since June 16th (when MRV issued its debt), which shows that the scenario in the debt market is completely different nowadays. We considered this change in our valuation model, increasing the cost of debt for 2009. With this proportion of leverage, MRV's D/E ratio will increase to 25% in 2009 and 43% in 2010. After that, this percentage is expected to fall as the company experience an increase in equity through its earnings, which are not followed by new debt issuance due to the diminishing of capital need.

In order to keep the company's leverage balanced and to take advantage of investments opportunities, we estimate that in the short term MRV will maintain its current dividend payout of 25% of net earnings. For the future, we expect a decrease in the plowback ratio and a dividend payout of 40% in 2013.

Investment Risks

As financial crisis worsens and consumers' optimism deteriorates, MRV may face severe reductions in the number of new projects launches. The shorter term financing, the raising cost of credit for the consumer together with the decrease of GDP in the country would drastically depress the demand. At the moment, the crisis is not affecting MRV's business model, but the deepening of the crisis may have a negative effect on our target price.

The companies focused on low income consumers depend largely on the concession of long term credit and low interest rates. If the financial crisis worsens, the basic interest rate may rise, affecting the demand for MRV. We estimate that a rise of 25bps of the Selic index would diminish the demand at MRV by 2%. On the other hand, the Banks may become more cautious in the granting of credit, thus curbing the sales of the company.

High reliance on "crédito associativo" by CEF: 40% of MRV's launchings are financed by CEF. Because it is a public agency, it is vulnerable to political influence. With the heightened sense of insecurity stemming from the financial crisis, the government may take measures that hinder the access to this credit line, hurting the performance of MRV.

The increase of competition in the low income sector may negatively influence the margins of MRV. As large players such as Cyrela, Gafisa and Rossi enter the lower-income segment, competition might get tougher, forcing MRV to diminish its prices and heighten its SG&A expenses. The growth of the businesses targeting lower income population such as TRISUL, PDG and RODOBENS, will also exert pressure on MRV's margins.

As the monthly payments made during the construction period are adjusted by the INCC, a significant rise of this index would increase the risk of insolvency and breach of contracts, affecting negatively the accounts receivable of the company.

The slowing of the job market reduces the FGTS deposits and increases the demand for retrieving the fund, weakening the financing options for real estate. The FGTS is responsible for 27% of the financing of the sector

Debt Market			
Debt Yield			
	16/6/2008	28/10/2008	Change
Urbi	8,22%	12,87%	57%
Geo	7,52%	11,31%	50%

Figure 1: Income Statement

R\$ in millions

Source: Company Documents, Student Estimates

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Perpet.
CONTRACTED SALES	717	1.820	2.425	2.688	3.025	3.450	3.938	4.434	4.885	4.885
GROSS REVENUES	441	1.396	2.392	2.575	2.894	3.299	3.765	4.273	4.747	4.747
NET REVENUES	384	1.248	2.139	2.302	2.587	2.949	3.366	3.820	4.244	4.244
COGS	(230)	(774)	(1.305)	(1.405)	(1.579)	(1.800)	(2.054)	(2.332)	(2.590)	(2.590)
<i>% net revenues</i>	<i>-60,0%</i>	<i>-62,0%</i>	<i>-61,0%</i>	<i>-61,0%</i>	<i>-61,0%</i>	<i>-61,0%</i>	<i>-61,0%</i>	<i>-61,0%</i>	<i>-61,0%</i>	<i>-61,0%</i>
GROSS MARGIN	154	475	833	897	1.008	1.149	1.312	1.489	1.654	1.654
<i>% gross margin</i>	<i>40,0%</i>	<i>38,0%</i>	<i>39,0%</i>	<i>39,0%</i>	<i>39,0%</i>	<i>39,0%</i>	<i>39,0%</i>	<i>39,0%</i>	<i>39,0%</i>	<i>39,0%</i>
Selling Expenses	(31)	(98)	(168)	(181)	(203)	(232)	(265)	(300)	(334)	(334)
G&A Expenses	(116)	(172)	(295)	(319)	(360)	(412)	(471)	(536)	(597)	(597)
Other Operating Income/(Expenses)	22	-	-	-	-	-	-	-	-	-
EBIT	29	204	370	397	445	506	576	652	723	723
<i>% net revenues</i>	<i>7,5%</i>	<i>16,4%</i>	<i>17,3%</i>	<i>17,2%</i>	<i>17,2%</i>	<i>17,1%</i>	<i>17,1%</i>	<i>17,1%</i>	<i>17,0%</i>	<i>17,0%</i>
Financial Expenses	(7)	(24)	(68)	(86)	(105)	(101)	(97)	(95)	(94)	-
Financial Income	36	76	58	64	103	103	108	116	132	116
Financial Income from Receivables	7	24	42	45	50	57	65	74	83	83
Non-Operating Income/(Expenses)	2	-	-	-	-	-	-	-	-	-
PROFIT BEFORE TAXES	68	280	402	420	493	565	652	748	845	845
<i>% gross margin</i>	<i>17,6%</i>	<i>22,5%</i>	<i>18,8%</i>	<i>18,2%</i>	<i>19,1%</i>	<i>19,2%</i>	<i>19,4%</i>	<i>19,6%</i>	<i>19,9%</i>	<i>19,9%</i>
Income Tax and Social Contribution	(24)	(95)	(137)	(143)	(168)	(192)	(222)	(254)	(287)	(287)
Minorities	(1)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(11)
NET INCOME	43	181	260	271	319	365	421	484	546	546
<i>% gross margin</i>	<i>11,1%</i>	<i>14,5%</i>	<i>12,2%</i>	<i>11,8%</i>	<i>12,3%</i>	<i>12,4%</i>	<i>12,5%</i>	<i>12,7%</i>	<i>12,9%</i>	<i>12,9%</i>
NOPAT	104	135	244	262	294	334	380	431	477	477
<i>% gross margin</i>	<i>27,2%</i>	<i>10,8%</i>	<i>11,4%</i>	<i>11,4%</i>	<i>11,3%</i>	<i>11,3%</i>	<i>11,3%</i>	<i>11,3%</i>	<i>11,2%</i>	<i>11,2%</i>
EBITDA	30	206	374	403	453	516	589	668	742	742

Figure 2: Balance Sheet

\$ in millions

Source: Company Documents, Student Estimates

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current assets	1.469	1.593	1.803	2.347	2.555	2.826	3.153	3.508	3.906
Cash	605	417	521	914	953	1.043	1.176	1.342	1.585
Accounts Receivable	210	533	711	788	869	951	1.032	1.115	1.179
Inventories	641	600	500	568	647	739	844	941	1.024
Deferred taxes	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-
Other assets	13	42	72	77	85	93	101	110	117
Long-term assets	417	1.009	1.344	1.484	1.633	1.785	1.933	2.086	2.205
Accounts Receivables LT	372	944	1.258	1.394	1.538	1.684	1.826	1.974	2.087
Other Accounts Receivables LT	14	14	14	14	14	14	14	14	14
Other LT Assets	31	51	72	76	81	87	92	99	104
Fixed assets	18	26	39	51	64	77	90	104	119
Investment	5	5	5	5	5	5	5	5	5
Properties and equipment	12	22	39	57	77	100	127	157	190
(-) Accumulated Depreciation	(1)	(3)	(7)	(13)	(21)	(31)	(44)	(60)	(79)
Properties and equipment - net	11	19	32	44	57	70	83	97	111
Intangible	3	3	3	3	3	3	3	3	3
Total assets	1.905	2.628	3.186	3.883	4.252	4.688	5.176	5.699	6.229
Current liabilities	432	686	921	1.015	1.141	1.313	1.514	1.728	1.930
Loans and financings	15	15	15	15	15	15	15	15	15
Accounts payable	29	98	165	178	200	228	260	295	328
Taxes payable	13	13	13	13	13	13	13	13	13
Dividend payable	10	34	61	79	88	117	152	194	239
Other account payable	364	526	666	730	825	940	1.073	1.211	1.336
Long-term liabilities	99	422	546	955	968	983	1.001	1.020	1.041
Loans and financings	7	307	407	807	807	807	807	807	807
Other account payable	84	102	121	125	131	138	147	157	166
Minorities	8	12	18	23	30	37	46	56	68
Shareholders' equity	1.373	1.521	1.720	1.913	2.143	2.392	2.661	2.951	3.258
Capital	1321	1.321	1.321	1.321	1.321	1.321	1.321	1.321	1.321
Income reserves	33	40	52	65	80	97	116	137	161
Capital reserves	19	159	346	526	742	974	1.224	1.493	1.776
Total liabilities	1.905	2.628	3.186	3.883	4.252	4.688	5.176	5.699	6.230

Figure 3: Statement of Cash Flows

\$ in millions

Source: Company Documents, Student Estimates

	2008	2009	2010	2011	2012	2013	2014	2015	Perpet.
(=) NOPAT	135	244	262	294	334	380	431	477	477
(+) Depreciation & amortization	2	4	6	8	10	13	16	19	19
(-) Capex	(10)	(17)	(18)	(20)	(23)	(26)	(30)	(33)	(19)
(+/-) Changes in W/C	(655)	(216)	(210)	(195)	(182)	(166)	(161)	(107)	
FCF - R\$ mn	(528)	16	39	86	139	200	255	356	477
(+) New debt issued - debt repayments	300	100	400	0	0	0	0	0	
(+) Equity raised			€						
(+/-) Financial result after taxes and non-operating result	50	21	15	32	39	50	63	80	80
Participation (%)									
FCFE - R\$ mn	(178)	137	454	118	178	250	318	436	436

Figure 4: WACC Calculation

\$ in millions

Source: Company Documents, Student Estimates

	2008	2009	2010	2011	2012	2013	2014	2015
WACC = [CAPM * E] + [CCT * (1 - t) * D]	14,72%	15,18%	14,28%	14,16%	14,16%	14,17%	14,22%	14,27%
% of equity	82,51%	80,28%	69,93%	72,27%	74,41%	76,39%	78,20%	79,85%
% of debt	17,49%	19,72%	30,07%	27,73%	25,59%	23,61%	21,80%	20,15%
Cost of debt	14,10%	18,20%	13,85%	12,79%	12,27%	11,81%	11,56%	11,37%
IR	0,34	0,34	0,34	0,34	0,34	0,34	0,34	0,34
CAPM = Rf + B (Rm - Rf) + Rb + Rs	15,87%	15,96%	16,48%	16,35%	16,24%	16,14%	16,06%	15,98%
Rf = risk free	3,69%	3,69%	3,69%	3,69%	3,69%	3,69%	3,69%	3,69%
β = leveraged beta	0,96	0,98	1,08	1,05	1,03	1,01	0,99	0,98
Rm = Market risk premium (Rm-Rf)	5,10%	5,10%	5,10%	5,10%	5,10%	5,10%	5,10%	5,10%
Country risk	3,39%	3,39%	3,39%	3,39%	3,39%	3,39%	3,39%	3,39%
CDS 5 years	6,08%	6,08%	6,08%	6,08%	6,08%	6,08%	6,08%	6,08%
Average country risk - last 12 months	2,49%	2,49%	2,49%	2,49%	2,49%	2,49%	2,49%	2,49%
US CPI	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%
Brazil IPCA	4,50%	4,50%	4,50%	4,50%	4,50%	4,50%	4,50%	4,50%
Extra risks	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%
Execution risk	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%
Financial crisis	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%
Competitiveness	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%
Debt / Equity								
Debt	17%	20%	30%	28%	26%	24%	22%	20%
Equity	83%	80%	70%	72%	74%	76%	78%	80%
Total (D + E)	1	1	1	1	1	1	1	1
Relation (D / E)	21,2%	24,6%	43,0%	38,4%	34,4%	30,9%	27,9%	25,2%
β = unleveraged beta	0,84	0,84	0,84	0,84	0,84	0,84	0,84	0,84
β = Gross beta	0,84	0,84	0,84	0,84	0,84	0,84	0,84	0,84
Sum of Debt Equity	1.843	2.142	2.735	2.966	3.214	3.484	3.773	4.081
Debt	322	422	822	822	822	822	822	822
Equity	1.521	1.720	1.913	2.143	2.392	2.661	2.951	3.258

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